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FISCAL IMPACT STATEMENT

LS 7886

BILL NUMBER: SB 462

NOTE PREPARED: Mar 28, 2003

BILL AMENDED: Mar 27, 2002

SUBJECT: ICHIA Revisions.

FIRST AUTHOR: Sen. Miller

FIRST SPONSOR: Rep. Fry

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill amends the Indiana Comprehensive Health Insurance Association (ICHIA) law concerning eligibility, prescription drug coverage, out-of-pocket expenses, termination of coverage, pharmacy and chronic disease management programs, and chronic disease coverage.

The bill also requires guaranteed issuance of health coverage in the individual insurance market if ICHIA determines that the financial capability of ICHIA to meet expenses is uncertain. It also makes conforming and technical amendments.

Effective Date: July 1, 2003.

Explanation of State Expenditures: (Revised) This bill makes several changes to the Indiana Comprehensive Health Insurance Association law. These changes are expected to reduce total expenditures for ICHIA. The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Adjusted Gross Income Taxes, or any combination of these or similar taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. To the extent that this bill reduces expenditures, it may increase revenue to the state. If insurers are assessed an amount less than their tax burden after any carry forward credits are taken, the state may receive increased Premium Taxes or Adjusted Gross Income Taxes, or any combination of these or similar taxes. If ICHIA determines that the financial capability of ICHIA to meet expenses is uncertain and guaranteed issuance of health coverage is enacted, cost to the state for providing state employee health benefits may increase, but state revenue expenditures to support the ICHIA program, in the form of tax credits, will decrease. Total cost is unknown.

ICHIA Changes: The changes to the ICHIA program include the following: (1) sets definition of resident, (2) eliminates list of health conditions that automatically qualify an individual, (3) elimination of \$25 referral fees for insurance agents, (4) review and implement disease management programs, (5) development of a pharmaceutical management program, (6) prescription drug requirements - internet/mail order pharmacy, (7) adjustment of deductible for inflation, (8) revision of deductibles and coinsurance, and (9) eligibility requirements.

(1) Sets Definition of Resident: This provision may reduce the number of individuals that are enrolled in the ICHIA plan. Total impact on plan expenditures is unknown. There are approximately 9,800 individuals with ICHIA plans currently. Under current practice, in order for an individual to establish residency, they must reside in the state for at least three months. This bill requires that an individual reside in Indiana for at least 180 days before applying for an Association policy. There is no language in statute currently that automatically discontinues an individual's coverage if they change residency to another state. The contractor for ICHIA conducts investigations of individuals suspected to have changed residency and notifies them that their coverage will expire the following month if they have indeed relocated out of state. This provision may reduce the lag time between when an individual moves out of state and when the policy is canceled. Cost savings associated with this provision are not known at this time.

(2) Elimination of Qualifying Medical Conditions: Under the current statute an individual does not have to demonstrate an inability to obtain coverage. If an individual has one of several listed conditions, they automatically qualify for ICHIA coverage. The provision in the bill which requires an individual to demonstrate their inability to obtain outside coverage may deter some individuals from obtaining an ICHIA policy. The extent of savings is dependent upon the number of individuals affected. However, given the fact that insurers cannot write waivers of coverage into health insurance policies, it is likely that an individual with one of the current qualifying conditions cannot obtain coverage through a source other than ICHIA, and thus be eligible after a denial of coverage. Thus, the net reduction in policies issued by ICHIA and the associated cost reductions are negligible.

(3) Elimination of Referral Fees: This bill eliminates the provision that an insurance agent that refers an individual to ICHIA for coverage is to receive a \$25 referral fee. Referral fees paid for 2001 totaled \$28,090, and referral fees for 2002 totaled \$34,675 (through October 31, 2002). Elimination of this requirement will result in cost savings of an estimated average \$30,000 annually.

(4) Disease Management: This provision requires that ICHIA develop chronic disease management programs. The ICHIA Board shall implement mandatory disease management programs after review of chronic disease management programs for similar populations. This bill requires that an individual participate in a chronic disease management program if one is approved by ICHIA for a condition the individual receives treatment for. The bill requires that the Board consider recommendations of the Office of Medicaid Policy and Planning Drug Utilization Review Board regarding the development and adoption of a pharmaceutical management program. ICHIA recently signed a contract with an outside company to establish a voluntary disease management program. The voluntary program is estimated to be operational by March 1 and to result in a 5% cost savings. ICHIA staff estimate that if the disease management program were made mandatory it could result in a 10% cost savings for the program.

(5) Development of a Pharmaceutical Management Program: The Office of Medicaid Policy and Planning Drug Utilization Review Board shall advise ICHIA regarding the development and adoption of a pharmaceutical management program. The ICHIA Board shall implement a pharmaceutical management program after review of other programs for similar populations. The program may not require prior

authorization for certain drugs for treatment of HIV/AIDS and Hemophilia. The cost of developing and adopting a new pharmaceutical management program is unknown at this time. It is estimated that the pharmaceutical management program, when fully implemented, will result in a 17%-18% long-term savings on prescription expenditures. Total prescription expenditures for the period April 2001 to March 2002 were \$9.6 M. Based on this data, the estimated savings would be between \$1.6 M and \$1.7 M annually - however, the savings associated with pharmaceutical management program adoption will not be realized immediately.

(6) *Prescription Drug Requirements:* The bill also contains a prescription drug provision for individuals enrolled in ICHIA. These individuals are required to obtain prescription drugs from an Internet or mail order pharmacy or a pharmacy that agrees to sell a prescription at the same price as the Internet or mail order pharmacy. Individuals are allowed to purchase prescriptions at other pharmacies as well, however, ICHIA shall only reimburse the amount equal to that paid to an approved pharmacy. Cost savings associated with this provision are not known at the present time.

(7) *Adjust Deductible for Inflation:* This provision allows the deductible and total out-of-pocket expenditure to be adjusted annually based upon the percentage increase in the medical care component of the Consumer Price Index each year. This provision will keep the amount of the deductible constant with regards to inflation.

(8) *Revision of Deductibles:* This provision requires that deductibles and coinsurance exclude prescription drug costs. The current maximum member out-of-pocket payment for expenses including prescription drugs is \$1,500 per individual and \$2,500 for family coverage. This provision would exclude payments for prescription drugs from the maximum out-of-pocket amount. Thus, an individual with prescription costs above this limit would remain responsible for paying the copayment. It is unknown what impact this will have on total program costs. It is anticipated that this will reduce program expenditures.

(9) *Eligibility Requirement Changes:* This bill eliminates the provision that an individual can obtain an ICHIA policy if current group insurance coverage is in jeopardy of being terminated. In addition, it eliminates the provision that an individual can obtain an ICHIA policy without any limitations on pre-existing conditions if current group insurance coverage is in jeopardy of being terminated. These provisions may reduce the number of individuals that obtain an ICHIA policy. In addition, this bill requires that an individual is not eligible for an Association policy if the person is eligible for Medicaid. An individual must apply for Medicaid coverage not more than 60 days before applying for an ICHIA policy. The total reduction in expenditures associated with these provisions is not known at this time and is contingent upon the reduction of potential enrollees.

Office of Medicaid Policy and Planning - Drug Utilization Review Board - The Office of Medicaid Policy and Planning (OMPP) Drug Utilization Review Board (DUR Board) shall advise the ICHIA Board concerning implementation of chronic disease management and pharmaceutical management programs. The DUR Board is a voluntary body tasked primarily with reviewing pharmaceutical issues for OMPP. The FSSA could not estimate a fiscal impact regarding potential cost to the DUR Board due to a lack of clarity regarding the type of commitment required. However, the agency stated that if the topics proved to be high-profile the time and resource devotion could be significant.

State Department of Health - The Department of Health currently pays for approximately 1,300 individuals with HIV/AIDS to be enrolled in the ICHIA program. The state receives approximately \$7.8 M from the federal AIDS Drug Assistance Program (ADAP) and Title II of the federal Ryan White Care Act. [Note: The individuals in the ADAP program could also be enrolled in the Medworks program or Medicaid, depending

upon income and disability status.] If the ICHIA program is terminated, the Department will not be able to buy in for ADAP enrollees. However, these individuals would be eligible for coverage under regular health insurance plans due to the guaranteed issue requirement. It is unclear as to whether the Department would continue to purchase insurance for these individuals in the open market.

Guaranteed Issue: Under the provisions of this bill, if the financial ability of ICHIA to meet incurred or estimated expenses becomes uncertain, the ICHIA program is void and a new guaranteed issue requirement becomes effective. The bill eliminates the Indiana Comprehensive Health Insurance Association (ICHIA) and provides for guaranteed issue of individual health insurance coverage to specified uninsured and uninsurable individuals without limitation or exclusion for preexisting health conditions. The bill also prohibits the premium for such coverage from exceeding 150% of the average premium charged for health benefit plan coverage by the five providers with the largest premium volume in Indiana. The elimination of ICHIA would relieve the state of its annual liability for ICHIA program losses (i.e., the difference between premium receipts and the total administrative and claims costs incurred). ICHIA program loss for CY 2001 was \$61.4 M. ICHIA program losses are estimated to be approximately \$79.1 M in CY 2003 and \$105.5 M in CY 2004.

If IC 27-8-10 becomes void, member companies will not be able to utilize tax credits for ICHIA assessments they have not exhausted during prior years. Preliminary data collected in 2002 indicate that ICHIA assessments in 2001 exceeded tax credits taken by approximately \$10.3 M. Given the basis for this estimate and since some companies have not been able to take full advantage of accumulated credits, the carryover could be higher. In the event that unused tax credits could not be claimed in the future, the savings to the state through the elimination of ICHIA would be increased by at least \$10.3 M based on 2001 carry forward credits, assuming that the credits were not utilized in 2002 or years after.

The provisions relating to guaranteed issue and limiting premiums for such coverage, albeit significant in terms of the individual health insurance market, may also increase the cost of state employee health benefit costs. This increase is contingent upon the degree insurers increase rates in general to compensate for losses associated with mandated coverage.

Legislative Services Agency: This bill includes a provision that requires LSA to prepare legislation for the next session if the guaranteed issue requirement is implemented. This legislation is to make any corrections to statutes affected by the termination of ICHIA and the implementation of the guaranteed individual health benefit plan coverage. Given current staffing and resources it is assumed that LSA could absorb the cost of this provision at no additional cost.

Background: All carriers, health maintenance organizations, limited service health maintenance organizations, and self-insurers providing health insurance or health care services in Indiana are members of the Indiana Comprehensive Health Insurance Association. ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA, by assessments to member companies (excluding self-insurers preempted by ERISA), and the state General Fund. To be eligible, Indiana residents must show evidence of: (1) denied insurance coverage or an exclusionary rider; (2) one or more of the "presumptive" conditions such as AIDS, cystic fibrosis, or diabetes; (3) insurance coverage under a group, government, or church plan making the applicant eligible under the federal Health Insurance Portability and Accountability Act (HIPAA); or (4) exhausted continuation coverage (e.g., COBRA). Premium rates must be less than or equal to 150% of the average premium charged by the five largest individual market carriers. The current blended rate for an ICHIA policy as of September 2002 was \$391 per member per month.

The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Adjusted Gross Income Taxes, or any combination of these or similar taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. Total expenses for the ICHIA program for CY 2001 were \$93.1 M with premium contributions of \$31.7 M and assessment receipts of \$61.4M. Enrollment in the ICHIA program as of August 2002 was 9,779. Based upon data presented to the State Budget Committee, the assessments for 2003 are projected to exceed the \$100 M threshold by approximately \$5.6 M. The Executive Director of ICHIA stated that new cost control mechanisms put in place in recent months may control total program costs.

Beginning October 31, 2002, insurers are required to report the amount of assessments paid and tax credits taken each year. Data from CY 2001 is currently incomplete. However, preliminary data indicate that ICHIA assessments in 2001 exceeded tax credits taken by approximately \$10.3 M.

ICHIA Assessments

Year	Assessment	Percent Change
1997	\$18,791,177	10.48%
1998	\$25,907,143	37.87%
1999	\$24,130,087	-6.86%
2000	\$34,816,164	44.29%
2001	\$61,406,500	76.37%
2002*	\$79,127,224	28.86%
2003*	\$105,574,277	33.42%

* Estimates based upon data presented to State Budget Committee by Connie Brown, MPlan, 11/12/02.

Explanation of State Revenues: See *Explanation of State Expenditures*.

Explanation of Local Expenditures: (Revised) Similar to the state, the provisions relating to guaranteed issue and limiting premiums for such coverage may increase local government employee health benefit costs. This increase is contingent upon the degree insurers increase rates in general to compensate for losses associated with mandated coverage.

Explanation of Local Revenues:

State Agencies Affected: Indiana Comprehensive Health Insurance Association; Family and Social Services Administration, OMPP; Department of Health; Legislative Services Agency; Potentially all if guaranteed issue is implemented.

Local Agencies Affected: Potentially all that purchase insurance or provide health coverage through HMOs for employees.

Information Sources: Doug Stratton, Executive Director, ICHIA, 317-877-5376; Testimony of Connie Brown CFO of MPlan to the Budget Committee on November 12, 2002; Amy Kruzan, Legislative Director, FSSA, 317-232-1149; Zach Cattell, Legislative Director, State Department of Health, 317-233-2170.

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